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Sustainable development: follow-up to and implementation of the Mauritius Strategy for the Further Implementation of the Programme of Action for the Sustainable Development of Small Island Developing States

Economic and Social Council
Substantive session of 2006
Geneva, 3-28 July 2006
Item 13 (a) of the provisional agenda**
Economic and environmental questions: sustainable development

Letter dated 13 April 2006 from the Permanent Representative of Seychelles to the United Nations addressed to the Secretary-General

I have the honour to transmit to you the final report of the Atlantic, Indian Ocean, Mediterranean and South China Seas (AIMS) Regional Meeting to follow up on implementation of the Mauritius Strategy for Further Implementation of the Programme of Action for the Sustainable Development of Small Island Developing States (see annex), held in Baie Lazare, Seychelles, from 26 to 28 October 2005.

On behalf of the small island developing States that participated in the meeting, I request that the present letter and its annex be issued as a document of the Economic and Social Council, under item 13 (a) of the provisional agenda, and of the General Assembly, under agenda item 52 (b) of the preliminary list for the sixty-first session, and that it be made available to the Commission on Sustainable Development at its fourteenth session.

(*Signed*) Jérémie **Bonnelame**
Ambassador
Permanent Representative

* A/61/50.
** E/2006/100 to be issued.

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Annex to the letter dated 13 April 2006 from the Permanent Representative of Seychelles to the United Nations addressed to the Secretary-General

The AIMS Regional Meeting to follow up on implementation of the Mauritius Strategy

Seychelles, 26-28 October 2005

The AIMS Regional Meeting to Follow-up on Implementation of the Mauritius Strategy was convened in Seychelles from 26th to 28th October 2005 at the Plantation Club Hotel, Baie Lazare. The meeting was attended by Cape Verde, Comoros, Maldives, Mauritius, Seychelles, Singapore, the Indian Ocean Commission (COI), the United Nations Department of Economic and Social Affairs (UNDESA), UNESCO, UNAIDS, FAO, Global Forum of Oceans, Coasts and Islands, Liaison Unit of NGOs (LUNGOS) and Centre de Documentation et Recherche et Formation Indianoceanique (CEDREFI). The meeting noted the absence of Guinea-Bissau and Sao Tome and Principe whose participation was expected. The meeting also noted that Bahrain, Cyprus and Malta had expressed through their Permanent Representatives to the UN the wish not to be represented. The donor community were invited by UNDESA to attend but were not represented. The list of participants is attached as Annex 1.

The meeting was convened pursuant to General Assembly resolution 59/311 calling inter alia for the three regional follow-up meetings.

The opening session was chaired by Mr Claude Morel, Principal Secretary of the Ministry of Foreign Affairs (MFA). Statements were made by Ms. Diane Quarless, Chief of the SIDS Unit, (UNDESA), Madame Monique Andreas-Esoavelomandroso, Secretary General of the Indian Ocean Commission (COI), and the Minister of Foreign Affairs of Seychelles, His Excellency The Honorouable Patrick Pillay. The statements are attached in annex 2 of the report.

Mr Claude Morel, Seychelles was elected Chairman of the Meeting, Cape Verde was elected Vice-Chairman, Mauritius was elected as Rapporteur with support from Seychelles, COI and UNDESA.

The purpose of the meeting was to review and evaluate progress in the region and instill a renewed resolve for taking action on the sustainable development priorities for the AIMS region.

Session 1 – Setting the Scene

The session was held on the 26th October, and was facilitated by Mr Claude Morel, MFA. The objective of the first session was to review priorities and mechanisms for implementing the UN MS at national, regional international and levels.

Presentations were made by Ms Diane Quarless (UNDESA, UN SIDS Unit) and Madame Monique Andreas-Esoavelomandroso Secretary General of the Indian Ocean Commission (COI), and brief national updates were given by country participants.

Statements and questions raised by Mauritius, Seychelles, Cape Verde, Comoros, Singapore, Maldives, COI, FAO, UNESCO and CEDREFI.

It was recalled that the SIDS themselves are primarily responsible for implementing BPoA and MSI, but require in the process the effective support of the donor community and relevant IGOs.

The role of the UN system should also be considered for how best support should be mobilized for the implementation of the MSI. The Inter-regional SIDS Meeting to be held in Rome in November 2005 would in this context constitute an important opportunity for the region. It was also recommended that the Rome meeting be discussed in the context of developing proposals for AIMS regional and national action, so that priority activities and projects/programmes could be brought forward. Rome will also give important consideration to SIDS-SIDS cooperation.

While the AIMS region is very diverse with historic, geographic and social differences of the Member States, there are many similarities in the impacts of the challenges faced by the AIMS SIDS that draw the group together in cooperation for sustainable development.

It was noted that improvements in communication between AIMS is needed and the process to develop a coordinating mechanism needs to take this into account, as well as having a process for effective resource mobilization. It was reaffirmed that COI has been playing an important coordinating role as the interim secretariat, yet is constrained by resources in further expanding services. The AIMS website has been launched through the COI structures. It was noted that the COI have proposed to utilize this information portal to publish an AIMS regional bulletin. Consideration should be given to also entrusting this portal as the regional hub for SIDSNet.

The challenges faced by AIMS SIDS are far greater than many of them can tackle by themselves and would thus clearly benefit from cooperation and inter-SIDS solidarity. Issues such as natural disasters and climate change are often beyond AIMS SIDS means.

Noting that the UN GA at its 59th session has now endorsed the MSI, and given a mandate to the UN system to ensure that the MSI is implemented in a coordinated manner, there is a need for the SIDS regions to articulate their concerns. The UN agencies have been constituted in an Inter-agency Consultative Group (IACG) chaired by DESA, and focal points were encouraged to be established in each of the UN agencies.

Participants noted that OHRLLS has a mandate in support of SIDS, but is strictly circumscribed to advocacy for SIDS, while DESA/DSD has responsibility through the SIDS Unit on substantive matters. It was agreed that as a matter of priority and in accordance with GA resolutions substantial strengthening of the SIDS Unit would be pursued at the highest levels, including at the Rome meeting, as would be the need for coordination of the SIDS Unit with OHRLLS, in such a way that

OHRLLS advocacy would be informed by the concerns and challenges of the SIDS regions, in particular the AIMS region.

Many delegations continued to express concern at the lack of international support for SIDS, which requires greater commitment from the UN and its specialized agencies and a strengthening of national and regional mechanisms. It was stressed that national and regional mechanisms would be enhanced with concomitant improvement in the international level coordination and cooperation for SIDS.

It was also recommended that in defining the regional support mechanism for AIMS consideration of linking AIMS to the UN system should be pursued. The region should also review how the specialized agencies can and are contributing to sustainable development in AIMS. Channels of communication between AIMS and the UN system should be reviewed with a view to improvement.

The national dialogue highlighted the need to establish or strengthen national processes for sustainable development and called for technical and financial support to such processes, as well as sharing of information of experiences and best practices through the COI portal. In many cases while there is a committee structure at national level for sustainable development there is a need to amend the functioning of such committees to become more of an executive board or executive body with both technical skills and access to funds to achieve targets for sustainable development. This would ensure the linking of for example national road maps for sustainable development to government policy, and for promoting inter-ministerial cooperation. It was also noted that cooperation modalities such as the Seychelles post-tsunami reconstruction and relief efforts could be of interest to the other SIDS.

The Singapore technical assistance program is being extended in the multiplicity of areas within which Singapore has expertise for another 5 years as SIDSTecII (for details see www.mfa.gov.sg/scp/).

It was noted that a number of projects are being launched in support of the MSI, as exemplified by the UNESCO continuing work on education for sustainable development and the work of other international organization. Clarifications were sought as to the degree to which international organizations are providing actual financial resources to these projects and initiatives.

Session 2- Millennium Development Goals (MDG's) and the Regional Perspective

The session was held on the 26th October, and was facilitated by Dr J. L Roberts (COI). The Objective of this session was to identify how national, regional and international partners can best work together for the pursuit of MDGs and the implementation of the Mauritius Strategy. Presentations were made on three models of programme management; 'HIV/ AIDS' by Dr. Joy Backory UNAIDS, 'Disaster Management' by: J.L Roberts and 'Oceans and Coastal Management' by Dr. Nirmal Jivan Shah.

Statements were made and questions raised by Seychelles, Cape Verde, Mauritius, FAO, UNDESA and UNESCO.

It was noted that it would be of interest to AIMS to promote evidence based programme management, and four model papers were presented on different themes highly relevant to SIDS in this regard, namely:

- Priority setting and MDGs (a deconstruction of the MDG framework): presented by Dr J L Roberts of COI
- Knowledge based approach for the better response to HIV/AIDS: paper presented by Dr Joy Backory on behalf of the COI/AIMS/UNAIDS partnership
- Disaster management: paper presented by Dr J L Roberts on the Commonwealth Secretariat report commissioned following the December 2004 Indian Ocean Tsunami
- Oceans and Coastal Management: paper presented on behalf of the Global Forum on Ocean Coasts and islands

In developing evidence based plans it was recognised that there exists a wide range in stages of development of AIMS countries and their capacity for adaptation. This highlights the need to see the limitations of the MDGs as tools for priority setting and resource allocation and hence the need for careful examination of their use in defining fields for cooperative approaches for the AIMS. While MDG implementation would benefit from an evidence based approach to the diagnosis and selection of most appropriate interventions, there should also be consideration of adapting the MDGs to more relevant development goals at national level.

Participants noted that prerequisites for successful implementation of the MDGs and the MSI include clear support from the Member States, the AIMS coordination mechanism and from donors. Consideration should be given to the recruitment of a facilitating team. All AIMS SIDS need to have national focal point who should ideally be a member of a national multisectoral coordination committee/mechanism. Funding support needs to be secured on a predictable basis, and ideally should have at least some national commitment. Regional action frameworks must be clearly linked with regional strategies and actions as well as national priorities and needs. National projects would in many cases not have been eligible for support from international sources, hence the benefit in having regional projects. But regional projects must start with an appropriate acknowledgement of national priorities and needs, and should build on national reports and needs assessments, such as the GEF national capacity self-assessments and the national sustainable development strategies called for at the Mauritius International Meeting.

Participants highlighted the need to establish standing mechanisms at national level to be responsible for implementation of sustainable development. The development of appropriate indicators for gauging progress in implementation would assist building effective institutions and cooperation between AIMS SIDS.

UNESCO and FAO suggested working with NEPAD as a means of making progress with implementing systems for using renewable sources of energy for production and for investment in the agricultural sector. FAO recommended that the SIDS forum promote the implementation of the mid-term investment program in the agricultural sector. UNESCO recommended use of the training

program in the Pacific, which shows the requirements for very particular skills for delineating claims to exclusive economic zones (EEZs) and for settling boundary issues.

The creation of a AIMS panel experts for deployment in the region and for staff training was also suggested.

Session 3 – Institutions and Co-ordination

The session was held on the 27th October, and was facilitated by Dr.J.L Roberts (COI).
The objective of this session was to review the planning, financing and management mechanisms for implementing of the MSI, at national, regional and international levels and to note the progress made with the national sustainable development strategies. Presentations were made by Ms. Diane Quarless (UNDESA), Mr Rolph Payet (Seychelles), Ms. Gina Bonne (COI) and short interventions by country participants.

National sustainable development strategies or their equivalent have been called for since Agenda 21, up to WSSD and MIM. The rationale for sustainable development strategies requires balancing the three pillars but also balancing the participation of stakeholders and coordination with government. A model NSDS consists of a coordinated set of participatory and continuously evolving processes of analysis, debate, decision-making, capacity development, planning, investment, monitoring and evaluation, which seeks to integrate the short and long term economic, social and environmental objectives of society, through mutually supportive approaches wherever possible - managing trade offs where this is not possible.

There should be a move starting from a broader awareness of sustainable development through better coherence and coordination in the short term, to full integration of the three pillars of sustainable development (economic, social and environmental).

To be effective it was recommended that there should be a shift from government control of the sustainable development agenda to a greater engagement with stakeholders (at least partial engagement in the short term) and shared responsibility of implementation.

There should be a shift from sectoral approaches towards the development of cross-sectoral approaches and ultimately to a fully implemented cross-sectoral approach.

The principles of sustainable development should be promoted in ways that everyone can understand.

In the discussion of national circumstances it was noted that while great progress has been made in many AIMS SIDS on the MDG targets there are still challenges such as pockets of poverty and life-style related diseases. There were also certain important cross-cutting issues. These included the need for building capacities and specialization which are difficult to accomplish in small states which may lack tertiary education and professional training institutions. Other gaps in capacity included skills in performance review and the development of effective partnerships between the public and private sectors. New forms of institutional development were necessary to fill these gaps common to many

SIDS. The development of national indicators to track progress in aspects of development peculiar to small states is however a necessary task to more accurately reflect the national circumstances, development needs and progress made.

Sustainable financing could be considered through the establishment of trust funds, but requires a strategy for resource mobilization. More thought needs to be given to the mechanisms for promoting progress towards MDGs and the types of incentives that might be most effective so that people were encouraged to take action rather than viewing changes as an imposition.

It was important to have a legally defined framework for ensuring effective and meaningful participation of all stakeholders in planning and implementation of sustainable development. Consultative processes must take into account the different working procedures of civil society and governments, as well as the changes in personnel that regularly occur in governments and in NGOs.

Consideration of possible regional mechanism

It was noted that the current situation of staffing at COI may only be continued for 10 months. There is a need to mobilize funds for meetings and consultative processes, and this requires a political process and a commitment from the non-COI SIDS to proceed with any proposed programmes. For this reason an operating arrangement may be required to be developed.

It was also important to note that the future political forum for governing the AIMS partnership needs to be made clear. Questions were raised in relation to the differences in membership between COI and AIMS whether it is possible to differentiate the activities of COI for COI alone versus activities of COI in support of AIMS.

It was also noted that there is a need also to get the views of the absent AIMS countries.

It was agreed that technical planning should continue whilst consultation proceeded on the nature and scope of a more formal management agreement for the AIMS Group. There was agreement that three parallel processes would be pursued, namely the development of technical plans for the AIMS Group, proposals for a more formal management framework, and fund raising for implementing the technical programme and to ensure that appropriate participation at a future ministerial meeting can be assured.

COI have prepared options for the content of future technical programmes, but the Group called for a series of political (governance) discussions on future management arrangements. The Group asked the COI to consult the AIMS Group in advance of formal ministerial discussions to finalize a proposal on the future regional programme and management arrangements as per annex 3 of the report.

Session 4 – Work Programmes

The session was held on 27th October. The objective of the session was to identify the common national priorities, to agree on the outline work programme and to propose specific areas for partnership for implementation. Mr. Espen Ronneberg (UNDESA) gave brief information about the

University Consortium of the Small Island States, Ms. Gina Bonne (COI) presented options for the AIMS Group Programme and Ms Diane Quarless (UNDESA) on the MSI Matrix.

The University Consortium of the Small Island States (UC-SIS) was noted as an important capacity building opportunity, and progress in the development of near, medium and long term aspects would be circulated to all SIDS.

In terms of the DESA matrix, the participants looked at the actionable mandates and what current programs, or planned activities would arise because of MSI, that could be used as the key information for the SIDS to access resources. Focal points would be established in most agencies, and a commitment given to meeting regularly and updating information. For this purpose the agencies will also have to provide funds.

The comprehensive completed matrix will provide information to the countries and agencies to see where support can be found, provided that the integration of sectors perspective is maintained. Participants also noted the information from UNDP on the changing ethos of assistance away from projects to a more programmatic approach through direct support to government and IGO budgets. There is therefore a need to look at the programme priorities for AIMS with a view to identifying supporting partners in the UN system.

Participants noted that having an AIMS secretariat would also be helpful to ensure that the UN serves the AIMS region more adequately and effectively. It is also important to ensure that there are complementarities in the activities of the different agencies.

Session 5 – Country work programmes and their regional and international support Requirements.

The session was held on 27th October and facilitated by Mr. Rolph Payet (Seychelles) and Dr.JL Roberts (COI). The objective of the session was to introduce the draft work programme Matrix proposed by Seychelles, as a tool for review of the scope and content of national programmes for sustainable development and their regional and international support requirements.

Seven priority issues were identified by the participants – HIV/AIDS, disaster management, water and food security, oceans and coasts, climate change and sea level rise, and trade. Three working groups were established to look at the priorities.

The main issues and actions recommended from the working groups were as follows: Support national efforts to complete the delimitation of maritime boundaries; support programmes to strengthen the monitoring, reporting, enforcement and control of fishing vessels to reduce incidences of IUU fishing; acquisition and installation of surveillance and monitoring equipment; support efforts to early ratification and accession to relevant fishing agreements; support the design and implementation of integrated policies for the management of MPA's; support national and regional initiatives on adaptation to climate change and appropriate technology; action on the Clean Development Mechanism; review or strengthen national and regional strategies including public

education to control and combat HIV/AIDS and other communicable diseases taking into account country and regional specificities; seek and enhance partnerships for programmes to combat HIV/AIDS with national, and regional entities with international development partners, relevant UN agencies ie. WHO, UNESCO, UNAIDS; Water: to broaden access to water for all SIDS; to enhance SIDS-SIDS Cooperation; International Community Support for Capacity Building; ntegrated water Resources Management through different initiatives; Food security: Enabling environment for food security, self reliance and agricultural diversification; Seed production & integrated pest management; Promotion of agro-industry; Promotion of aquaculture; Promote research and development and use of modern technologies; Ensure affordable provision of essential nutrition; Management of waste: promote sustainable waste management; best practices & innovative solutions to waste management; control of transboundary movement hazardous waste; disposal of quantity of waste at sea (London Dumping Convention); trade; and natural disasters.

Recommendations of the working groups are detailed in annex 4 and form an integral part of this report.

Session 6 – Way forward

The last session was held on the 28th October. The Objective of this session was to identify the milestones in the process for implementation of the Mauritius Strategy, the national, regional and international programmes. Presentations were made by UNDESA SIDS Unit on the main conclusions of the other regional meetings, on the Linkages of the CSD14/15 themes and by FAO on the ministerial meeting on SIDS 18 November 2005.

Statements and questions were made by Mauritius, COI, FAO and UNESCO.

UNDESA presented a summary of the conclusions and recommendation adopted by the Caribbean and Pacific regional meetings.

It was noted that the 14th session of the Commission on Sustainable Development (CSD14) offers an opportunity to highlight the link between climate change, energy, atmosphere and industrial development through innovative options. For example if SIDS themselves show how biofuel can be a substitute for fossil fuel, this promotes to the international community options they can take to decrease the use of fossil fuels that are at present contributing to Climate Change.

Participants acknowledged that energy is a key factor in the sustainable development of SIDS and their levels of foreign exchange. To increasing SIDS resilience to external factors such as oil prices, requires innovation and examination of best practices in making better use of local resources.

Engaging research through SIDS-SIDS partnerships such as the University Consortium can facilitate sharing of experiences and appropriate technologies to promote biofuels.

AIMS SIDS can learn from each other and other SIDS regions. The use of biofuels in the Pacific region is a good example of the feasibility of such initiatives which can be shared. There are many

solutions within the AIMS region to sustainable use of resources and substitution for costly imported products and these need to be highlighted. There are many innovative ideas that need to be explored particularly through SIDS-SIDS cooperation.

Participants noted though that all islands are different and there are no single solutions for all. What is important is to promote review of alternative and to stimulate innovation. Participants strongly urged that renewable energy and energy efficiency programmes to be pursued as a matter of priority and called for international support in this regard.

FAO made an introduction to the Special Ministerial event to be held on 18 November 2005 on Food Security and Sustainable Development in SIDS, and highlighted the specific actions undertaken in support of the SIDS. Participants noted FAO's initiatives in the Regional Food Security Programmes in the Pacific and Caribbean regions and requested similar initiative for the AIMS region to be raised in the Ministerial Meeting referred to above.

Conclusion of the meeting

The session was held on 28th October, and was chaired by the Chairman. The report of the meeting was presented by the Rapporteur. Statements were made and questions raised by Seychelles, Mauritius, Cape Verde; Maldives, COI, CEDREFI, FAO, UNAIDS, UNESCO and UNDESA.

The background documentation from the meeting was considered very helpful by the participants, and will be put on a master CD. This will be distributed to participants as well as posted on the AIMS website with hyperlinks to more detailed material available elsewhere (www.coi-inf.org click on AIMS), including the AIMS Synthesis report and the AIO report (now in English, French and Portuguese). In addition, the UN DESA road map provides a timetable of events in the process of implementation from 2005-2006.

Singapore, on behalf of all the delegates, thanked the Chairman, Vice-Chairman and Rapporteur, and the host Government and the people of Seychelles for the excellent arrangements for the meeting.

Diane Quarless expressed deep appreciation on behalf of UNDESA for the cooperation and excellent conditions for the meeting, thanked the COI and the UN system representatives for their cooperative spirit and wished the delegates safe travel home.

Gina Bonne expressed the thanks of the COI to the Seychelles Government, the UN system colleagues and the delegates for their excellent contributions to a successful meeting.

The Chairman made a closing statement, highlighting the success of the meeting and the progress achieved, noting the spirit expressed by the Minister of Foreign Affairs of Seychelles in his statement, and thanked the organizing committee and Secretariats for their hard work, and declared the meeting closed.

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Item 2 of the provisional agenda*
Creating an environment at the national and international levels conducive to generating full and productive employment and decent work for all, and its impact on sustainable development

World Economic and Social Survey 2006: Diverging Growth and Development

Overview

Summary

By many measures, world inequality is high and rising. The main reason is that in the industrialized world the income level over the last five decades has grown steadily, while it has failed to do so in many developing countries. Not more than a few developing countries have been growing at sustained rates in recent decades, but these include, most notably, the world's two most populous countries, China and India. Considering that these two countries alone account for more than one third of world population, inequality across the globe is beginning to decline. When these countries are left out, however, international income inequality is seen as having continued to rise strongly from already high levels. The World Economic and Social Survey 2006 focuses on the causes and implications of the income divergence between countries.

Success in development depends both on country efforts and on an appropriate international environment. Greater income divergence is partly explained by a rising number of growth collapses. Countries with weak economic structures and institutions and low infrastructural and human development have less capacity to gain from integrating global markets. Such conditions make it more difficult for developing countries to grow out of poverty and reduce their vulnerability to global shocks. Hence, the greater the likelihood of growth collapses and conflict as global

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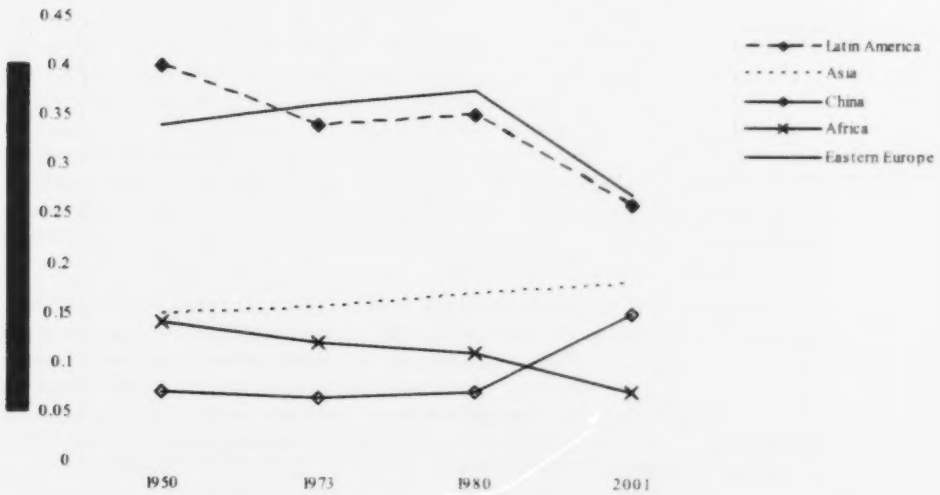
inequality rises. The problem of rising global inequality thus has an important bearing on the implementation of the United Nations development agenda. Failure to redress the tendency towards growing global inequality could thus have wide-ranging consequences for human development.

Diverging growth and development

By many measures, global income inequality is high and rising. In 1950, the average Ethiopian had an income 16 times less than that of someone living in Europe, Japan or the United States of America. Half a century later, Ethiopians have become 35 times poorer. Most of the world's poorest nations are falling behind in more or less similar degrees. The main reason is that in the industrialized world the income level over the last five decades has grown steadily, while it has failed to do so in many developing countries, especially over the past quarter of a century. Not more than a few developing countries have been growing at sustained rates in recent decades, but these include, most notably, the world's two most populous countries, China and India. Considering that these two countries alone account for more than one third of world population, inequality across the globe is beginning to decline. When these countries are left out, however, international income inequality is seen as having continued to rise strongly from already high levels (see figure 0.1).

Figure O.1
GDP per capita in selected developing regions and China relative to that in the developed world, 1950-2001



Source: United Nations staff calculations, based on Angus Maddison, *The World Economy: A Millennial Perspective*, Development Centre Studies (Paris, OECD Development Centre, 2001).
Note: Original data for GDP per capita were in purchasing power parity dollars.

These developments are at odds with the conventional economic wisdom regarding how income differentials among countries change over time in a more integrated world economy. During the 1980s and 1990s, there had been a belief that giving more space to the global market would lead to a closing of the income gap between poor and rich countries. In reality, income convergence took place only for a small number of countries, but this did not happen in the case of many others,

despite the fact that countries across the globe had opened up their trade and financial systems to the global market.

Why inequality matters

The World Economic and Social Survey 2006 focuses on the causes and implications of the income divergence between countries. High income inequality also prevails within many countries. This is a problem not only because it signals injustice but also, and in developing countries particularly, because unequal opportunities make it much more difficult as economic potential stays unutilized to achieve the Millennium Development Goals. We are concerned here, however, with the rising inequality between countries. About 70 per cent of global income inequality is explained by differences in incomes between countries. While this does not make the disparities within countries any less important, it is striking that the probability of having a better living standard to a very large extent appears to be conditioned by where one happens to live.

World markets are far from equitable and there are several conditions that do not favour a narrowing of the income divergence between countries. Richer countries have better "endowments" which give them preferential access to capital markets and make them less vulnerable to shifts in global commodity markets. Global investors generally prefer countries with greater wealth and better-developed human capital, infrastructure and institutions, which ensure lower investment risk. Poorer countries have less diversified economies and export structures, making them much more vulnerable to shifts in commodity prices and to shocks in international financial markets. Developing countries also have less of a voice in the negotiation processes setting the rules governing global markets. The Monterrey Consensus of the International Conference on Financing for Development[1] recognized this weakness and gave a clear mandate to the international community to improve the participation of developing countries in global decision-making. However, there has been very limited progress in this area.

Widening global disparities in turn may be harmful to growth itself. Reduced access to a stable source of international finance and a weaker bargaining position in international trade will leave some of the economic potential of poor countries underutilized and this should be considered a welfare loss for the world economy at large. Lower growth further obstructs efforts to eradicate poverty. In some cases, the lack of poverty reduction and high within-country inequality also have been shown to foment conflict and social instability.

Ignoring the slow development of a large number of countries means ignoring one of the main sources of growing world income inequality. To redress this will require both domestic and international policy efforts.

Diverging patterns of economic growth

Rising inequality between countries is the result of differences in economic performance over several decades. Broadly speaking, the income gap between the

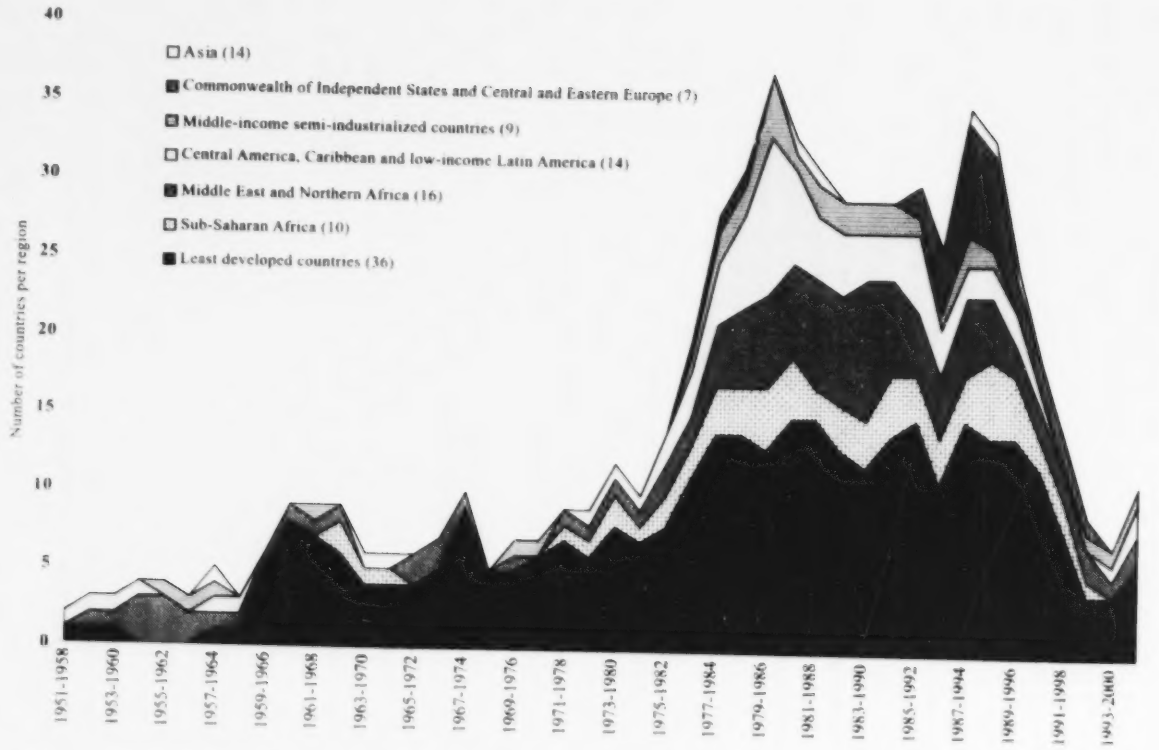
[1] *Report of the International Conference on Financing for Development, Monterrey, Mexico, 18-22 March 2002* (United Nations publication, Sales No. E.02.II.A.7), chap. I, resolution 1, annex.

industrialized economies and developing countries was already very high in 1960 and has continued to widen since then. At the same time, however, the growth experiences among the developing countries have differed greatly. Widening income disparities among developing countries became prominent after 1980 as the result in part of a limited number of success stories of sustained economic growth, most of them in East Asia. In other parts of the world, a much larger number of countries have suffered growth collapses with long-lasting impacts on living conditions. During the past 25 years, the number of cases of growth collapses has increased, whereas the frequency of cases of successful growth has diminished. In the 1960s and 1970s, nearly 50 out of a sample of 106 developing countries had experienced one or more prolonged episodes of high and sustained per capita income growth of more than 2 per cent per year (see figure O.2). Since 1980, however, there are only 20 developing countries that have enjoyed periods of sustained growth. In contrast, no less than 40 developing countries suffered growth collapses, that is to say, periods of five years or longer during which there had been no growth or a decline in per capita income. Such growth failures have been most frequent among the least developed countries and countries in sub-Saharan Africa. In the preceding decades, growth collapses had rarely occurred and had affected fewer than 10 countries.

Developing countries have, of course, done well very recently. Indeed, current trends indicate that the period 2004-2006 will show fairly widespread growth in developing countries, a pattern not seen since the late 1960s and early 1970s. During these three years, per capita income of developing countries will grow on average at a rate of more than 4 per cent per year and the least developed countries will perform even better. Whether this recent performance signals a longer-term trend is still to be determined. Some key factors behind it have been a combination of high commodity prices, low interest rates and increasing official development assistance (ODA) and debt relief to the poorest countries. As these favourable conditions will not be permanent, the continuation of strong growth will depend critically on the ability of developing countries to use the dividends of the current positive conjuncture for investments in the interest of long-term economic development.

Economists have no conclusive answers regarding the precise causes of growth successes and failures. Recent studies have been rediscovering the complexities of economic growth. A newly emerging consensus is that the search for answers should not merely focus on economic factors, but also take into account the historical and institutional setting of each country. The analysis should focus on a diagnosis of the binding constraints on growth such as limitations in mobilizing sufficient domestic or foreign finance, low levels of human capital and technological capabilities, weaknesses in governance structures and the poor functioning of institutions that regulate markets or provide public goods and social services. The importance and relevance of these constraints tend to vary from country to country. This report attempts to contribute its own findings during what is in fact a journey of discovery, in particular by looking at how the workings of global markets affect the sources of growth and influence the space in developing countries for the domestic policymaking undertaken to overcome such constraints. Success in development depends both on efforts undertaken at the country level to create dynamic sources of growth and on an enabling international environment.

Figure O.2
Growth collapses among developing countries, 1951-2000



Source: United Nations staff calculations, based on Angus Maddison, *The World Economy: A Millennial Perspective*, Development Centre Studies (Paris, OECD Development Centre, 2001).

Productivity growth and structural change

Productivity growth in developed countries relies mainly on technological innovation. For developing countries, however, growth and development are much less about pushing the technology frontier and much more about changing the structure of production so as to direct it towards activities with higher levels of productivity. This kind of structural change can be achieved largely by adopting and adapting existing technologies, substituting imports and entering into world markets for manufacturing goods and services, and through rapid accumulation of physical and human capital. Only very few developing countries have been able to undertake original research and development.

The industrial sector typically contributes more dynamically to overall output growth because of its higher productivity growth, which results from increasing returns to scale and gains from technological progress and learning-by-doing. Its greater dynamism is also derived from its capacity to forge greater vertical integration of different sectors of the economy by processing raw materials and semi-industrial inputs. Modern service sectors are also a source of productivity gain and are essential to the achievement of industrialization. As international trade for services grows, they also offer a new opportunity for export development.

More broadly, dynamic structural change involves more than just growth of industry and modern services. It entails essentially the ability to constantly generate new dynamic activities. It also involves strengthening economic linkages within the economy — in other words, integrating the domestic economy. The degree of integration of the domestic economy influences whether a country is able to gain from international trade and investment. It also affects the capacity to improve productivity in all major sectors of the economy.

Patterns of structural change over the past four decades indicate that such dynamic transformations have clearly characterized the fast-growing Eastern and Southern Asian economies. Economies characterized by relatively little structural change have lagged behind, particularly in Africa. Sluggish long-term growth in the middle-income countries of Latin America and the Caribbean as well as countries in Central and Eastern Europe, the Middle East and the former Union of Soviet Socialist Republics has in fact been associated with a process of *deindustrialization*. In those countries, growth was largely concentrated in low-productivity services, with agriculture and industry remaining nearly stagnant. Fast growth in Eastern and Southern Asia, in contrast, has been associated with a rapid decline in the importance of agriculture and strong expansions of both the industrial and service sectors.

These fast-growing economies have also shown sustained increases in labour productivity, with labour moving from low- to high-productivity sectors, including modern service sectors. In the regions with low-growth performance, the employment shift to the service sector has been even stronger. However, in contrast with Asia, the service sectors in sub-Saharan Africa, Latin America and the former Soviet Union have shown declining productivity as many workers have sought employment in informal service activities owing to the lack of job creation in other parts of the economy.

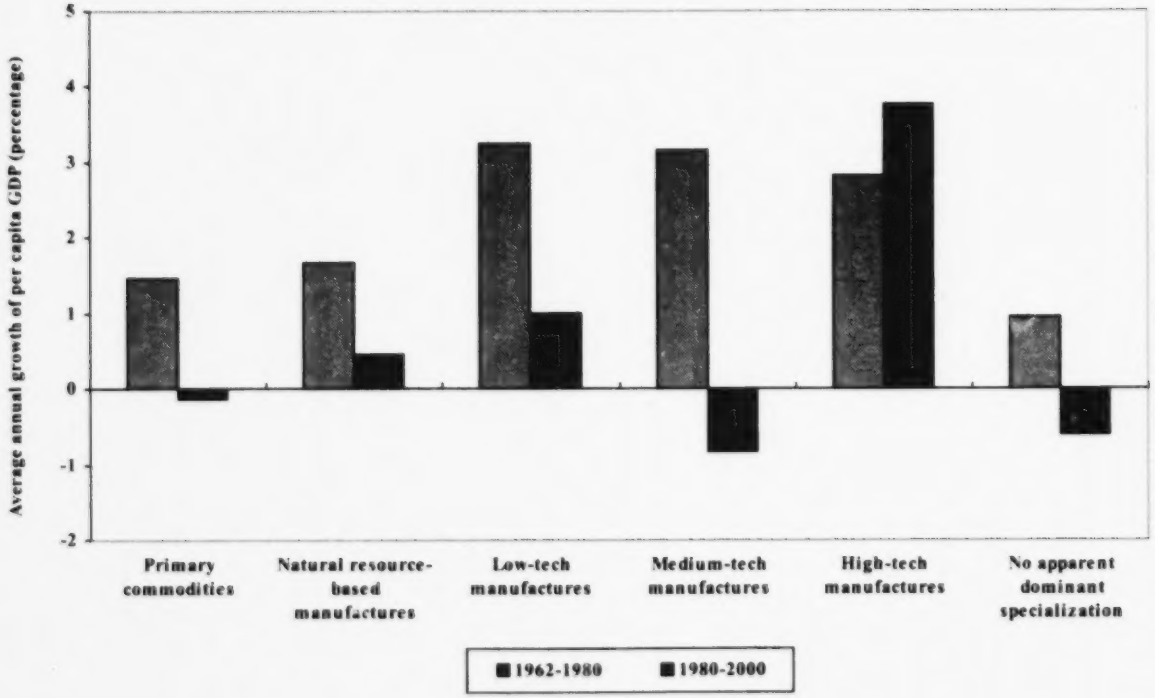
International trade, foreign direct investment and inequality

Export diversification and growth

Increased integration into the world economy seems to have exacerbated the divergence in growth performance among countries. Trade can help stimulate growth, but in the first instance it is a matter not of *how much* countries export, but rather of *what* they export. Faster overall economic growth driven by trade is associated with more dynamic export structures (see figure O.3). These are understood as encompassing the export mix that allows countries to not only participate in world markets for products with greater growth potential (most often high-tech products with a high income elasticity of demand) but also help strengthen productive links with the rest of the domestic economy and generate increased value added for a wider range of services and products. The East Asian countries managed to diversify their economies in this manner, as had already been evident from the pattern of structural change. The slower-growing developing countries relied on export activities with less value added that were rooted in a less integrated domestic economy. Many of these countries remain heavily dependent on exports of primary commodities and have lost market shares in world trade. They also have suffered from larger adverse trade shocks. Primary commodity prices have been more volatile than those of other export products and the terms of trade for non-oil commodity exports declined by almost 40 per cent between 1980 and 2003. The recent recovery in commodity prices has only partially offset this decline. By the end of 2005, average non-fuel commodity prices were still below 1980 levels in real terms.

Figure O.3

The relation between trade specialization and economic growth of countries classified by main type of export commodities, 1962-2000



Source: Department of Economic and Social Affairs of the United Nations Secretariat, based on World Bank, World Development Indicators 2005 database; and Robert C. Feenstra and others, "World trade flows: 1962-2000", NBER Working Paper, No. 11040 (Cambridge, Massachusetts, National Bureau of Economic Research, January 2005), available from http://www.nber.org/papers/w1104.

Diversifying into high-technology exports may not be an immediately feasible option for many developing countries. Low-income countries typically lack adequate basic manufacturing capacity, infrastructure and human capital, as well as international trading capacity to develop such dynamic export activities. As these countries do have some capacity to compete in world markets for primary goods, they should lay out industrial strategies to diversify exports so as to encompass processing natural resource-based products and light manufactures.

Foreign direct investment: the importance of promoting domestic linkages

The impact of foreign direct investment (FDI) on economic growth is directly dependent on the role it can play in strengthening domestic linkages in the economy. Since the 1980s, FDI has grown at a faster pace than have both world output and trade. This trend has been fostered by, among other things, the development of international production networks in manufacturing industries and modern services, the lifting of restrictions on capital flows and the privatization processes in developing countries. Developing countries have witnessed a 10-fold increase in the average annual inflows of FDI. Nonetheless, most (over two thirds) of FDI remains concentrated in developed countries. FDI to developing countries is also heavily concentrated, with well over 80 per cent of the flows to developing countries moving to only a dozen (mostly middle-income) countries, including China and India.

FDI brings finance and technology and thus could contribute significantly to long-term growth in developing countries. Clearly, however, FDI is mostly attracted to countries with higher incomes and better-developed markets, infrastructure and human capital. In this sense, FDI appears to have been a force for growth divergence. Also, countries with substantial increases in FDI have not always witnessed a strengthening of their economic growth. All major Latin American countries, and also some larger African countries, had witnessed inflows of higher shares of FDI relative to their gross domestic product (GDP) between the 1980s and the 1990s; yet, overall investment rates stagnated or declined. Moreover, FDI in Africa has been concentrated in mining activities, with few linkages and employment effects that benefit the wider economy.

This report concludes that in order for countries to profit from FDI, their domestic firms and institutions need to have the requisite absorptive capacity and technological capability. Countries that made significant investments in building domestic infrastructure, human capital and entrepreneurial capabilities (for example, Singapore and Ireland) were also the most successful in leveraging inward FDI. Conversely, there seems limited scope for long-term benefits from FDI when it is attracted in response to major tax incentives, or as a result of trade policy distortions (such as textile and clothing quotas), without a simultaneous build-up of local capabilities and without the creation of linkages between foreign affiliates and local firms.

Policy implications

Trade liberalization has been the main policy trend in recent decades. In most parts of the world, this has led to an expansion of export volumes, but not

necessarily to higher economic growth. Countries able to diversify and change the structure of production to encompass activities of higher productivity have seen more visible growth gains. Fostering greater economic and export diversification is a major challenge. It will require both active domestic policies and a more enabling trading environment for developing countries.

First, there is a case to be made for the adoption by developing-country Governments of active production sector development strategies. Most developing and developed countries that witnessed sustained successful economic growth had used active industrial policies to support the economic diversification and technological upgrading of their economies. Among developing countries, export-led growth strategies of the success cases involved varying combinations of supportive macroeconomic policies (see below), selective infant industry protection, export subsidies, directed credit schemes, local content rules and large investments in human capital, as well as strategic alliances with multinational companies. Support measures were often clearly tied to specific export performance criteria. The space for conducting this type of active production sector development policies has narrowed in the context of the multilateral trade agreements, but has not disappeared completely. Developing countries, particularly the least developed countries, have been given special and differential treatment as defined under the General Agreement on Tariffs and Trade (GATT) and the Uruguay Round of multilateral trade negotiations. In practice, however, developing countries, aside from the poorest ones, have had to apply the same rules as the developed countries but were allowed longer implementation periods and higher levels of protection.

Second, developing countries will need a better multilateral trading environment. Better trading opportunities for developing countries should involve improved market access for their exports of both agricultural and light manufactures, reduced domestic support for agricultural production in developed-country markets and, particularly, the elimination of trade-distorting domestic and export subsidies for agricultural goods. Better trading opportunities also mean better opportunities to participate in world markets for services, including those that require mobility of low-skilled labour. For least developed countries, duty-free and quota-free access to markets in industrialized countries is essential. All developing countries also need assistance in finding ways to address the costs of adjustment to a freer trading order, particularly those countries that lose trade preferences in the process.

Third, developing countries also need more space for adopting policies aimed at building the supply capacity that is needed to succeed in global markets and that encourages a dynamic structural change in their economies. For poor countries, the required policy space is somewhat less constrained than for other developing countries. For all developing countries, more attention than in the past should be given to rules that facilitate diversification of production into dynamic raw materials for export markets and, more importantly, into manufactures and services. More attention also needs to be paid to policies that facilitate the links between those sectors and other domestic activities and, more broadly, encourage *domestic* market integration. This may require special measures in support of infant *export* industries. Additional space is also needed to give agreements on intellectual property rights a more developmental orientation. These issues should thus be a subject of greater attention in the context of the definition of special and differential treatment for developing countries in multilateral trade agreements. More broadly, as underscored

in the São Paulo Consensus adopted by the United Nations Conference on Trade and Development (UNCTAD) at its eleventh session in June 2004 (document TD/412, part II), it is important to find an appropriate balance between national policy space and international disciplines and commitments.

Private capital flows and macroeconomic policies

Volatile and pro-cyclical capital flows to developing countries

There is no evidence that private non-FDI financial flows have consistently led to increased investment and growth in developing countries over the past 40 years. They certainly have not been a force in reducing international income inequality. Since the 1970s, developing countries, but mostly middle-income countries, have gained greater access to short- and long-term private financing, but these flows have largely marginalized the poorest countries. At the same time, commercial bank lending and other portfolio investments have proved to be highly pro-cyclical for developing countries. Both the availability and the cost of external financing ease during periods of economic expansion, and tighten and become more expensive during economic downswings. In this way, private external financing has contributed to increased economic volatility and, during the 1980s and 1990s, the related surges and sudden stops in private capital flows were a cause of major financial crises. Economic volatility creates greater uncertainty with adverse effects on long-term investment and growth. The costs of the currency and banking crises themselves were massive and, according to some estimates, these crises have lowered the income of developing countries by 25 per cent or more. The challenge for developing countries is to reduce their reliance on volatile short-term flows and create conditions that ensure that long-term private financing is channelled towards productive investment.

The importance of macroeconomic stability and policy flexibility for growth

Macroeconomic stability strongly influences the long-term growth performance of the economy. Macroeconomic stability should be understood in broader terms as entailing more than just preserving price stability and sustainable fiscal balances. It is also about avoiding large swings in economic activity and employment and, further, about maintaining sustainable external accounts and avoiding exchange-rate overvaluation. The frequency of financial crises in developing countries indicates that macroeconomic stability is, in addition, about maintaining well-regulated domestic financial sectors, sound balance sheets within the banking system and sound external debt structures.

A majority of developing countries had enjoyed robust growth and a relatively stable macroeconomic environment in the 1960s. In the decades thereafter, the fast-growing East Asian economies managed to achieve much greater macroeconomic stability than the much slower growing countries in Latin America and Africa. Macroeconomic stability and growth mutually reinforce each other. Strong and sustainable growth makes it easier to achieve greater macroeconomic stability by, among other things, enhancing the sustainability of domestic and foreign public debt. Conversely, greater stability, in its broad sense, reduces investment uncertainty and hence is supportive of higher long-term growth.

Stabilization policies as implemented in many developing countries since the 1980s have mostly emphasized the objectives of lowering inflation and restoring fiscal balances. While moderating inflation and exercising fiscal prudence as sensible macroeconomic policy objectives are not subject to dispute, there are concerns that, in practice, countries may have emphasized these objectives at the cost of considering other dimensions of macroeconomic stability. In particular, price stability often has been achieved at the cost of producing exchange-rate appreciation and unsustainable external debt burdens. Moreover, macroeconomic policies in much of the developing world have been highly pro-cyclical over the past two decades. This has been particularly costly during periods of economic slowdown, when such policy stances have led to lower economic growth and employment.

The analysis in this report shows that the fiscal policy stance in African and Latin American countries has been highly pro-cyclical and was often induced by the pro-cyclical effects of volatile capital flows. In East Asia, fiscal policies have been either neutral with respect to the business cycle or counter-cyclical. There is a strong negative correlation between pro-cyclical fiscal behaviour and long-term growth when measured for a large sample of developing countries (see figure O.4). Creating space for counter-cyclical macroeconomic adjustment policies thus appears to be beneficial for growth and, in so being, can contribute to income convergence. This is all the more important for developing countries, compared with developed ones. Macroeconomic volatility tends to be much higher at lower levels of development, particularly because of the greater vulnerability of developing countries to external shocks.

Figure O.4
The negative influence of pro-cyclical fiscal policy on long-term growth

Source: Calculations of the Department of Economic and Social Affairs of the United Nations Secretariat based on data by Graciela Kaminsky, Carmen M. Reinhart and Carlos A. Végh, "when it rains, it pours: procyclical capital flows and macroeconomic policies", NBER Working Paper, No. 10780 (Cambridge, Massachusetts, National Bureau of Economic Research, 2004); and World Bank, World Development Indicators database 2005.

Note: The index is constructed as a weighted average of indicators of fiscal policy cyclicality, which include public expenditure, a proxy for changes in tax rates and changes in expenditures over the business cycle in developing countries. Positive figures denote higher pro-cyclicality; and negative numbers, the level of counter-cyclicality. Further details may be found in Graciela Kaminsky, Carmen M. Reinhart and Carlos A. Végh, "when it rains, it pours: procyclical capital flows and macroeconomic policies", NBER Working Paper, No. 10780 (Cambridge, Massachusetts, National Bureau of Economic Research, 2004).

The need for more space for counter-cyclical macroeconomic policies

For many developing-country Governments, the space for conducting counter-cyclical macroeconomic policies is limited, as the available fiscal and foreign exchange resources tend to be small relative to the size of the external shocks they face. International action mitigating the impact of private capital flow volatility (see below) can further help to enhance the necessary policy space. However, also at the country level, Governments can take measures to enhance the scope for counter-cyclical policies by improving the institutional framework for macroeconomic policymaking.

First, the more appropriate institutional setting for fiscal policy should strike a balance between fiscal prudence and fiscal flexibility in a way that ensures both policy credibility and fiscal sustainability. Setting fiscal targets that are independent of the short-term fluctuations in economic growth (so-called *structural* budget rules) can be effective in forcing a counter-cyclical policy stance. Some developing countries, such as Chile, have been able to manage such fiscal rules successfully. Further, fiscal stabilization funds could help smooth out over time the revenues from

unstable tax sources, such as those based on primary export production. The experience with the application of such funds in various parts of the world has varied. They are by no means a panacea and careful management of such funds is required. Nonetheless, fiscal stabilization funds can constitute an effective instrument for resolving issues of inter-temporal trade-offs in fiscal spending by protecting growth-enhancing long-term public investment in infrastructure and human development also during periods of lower tax revenue ushered in by external shocks and economic downturns.

Second, a certain degree of discretionary power should be retained. Since the 1980s, Governments of many developing countries have moved from discretionary macroeconomic policy arrangements to rule-based ones. This shift was founded on the belief that the latter would avoid policy-generated macroeconomic instability. About 20 economies, for instance, adopted inflation-targeting as the framework for monetary policy. Under this monetary regime, an independent central bank commits itself to price stability by publicly announcing the level of inflation it will permit. There are a number of advantages to this kind of policy arrangement, including its potential to enhance central bank policy transparency and credibility. At the same time, however, the narrow focus of monetary policy on a strict inflation target biases macroeconomic stabilization against employment and growth objectives. Rule-based policies may function well for some time and when the economy is not suffering from major shocks. However, as the structure of the economy changes over time, so will vulnerability to external shocks. For instance, financial shocks may become more important than terms-of-trade shocks. In such a changing context, predetermined policy rules likely become less relevant or turn out to be too rigid. Moreover, as the risks and uncertainties facing an economy never present themselves in exactly the same way or with the same degree of intensity, a certain amount of space for discretionary policies is always needed in order for adjustments to be made that will minimize macroeconomic losses.

Third, macroeconomic policies should be well integrated with other areas of economic policymaking. A competitive real exchange rate seems to be critical in this regard. In the fast-growing East Asian economies, for example, macroeconomic policies were part of a broader development strategy, contributing directly to long-run growth. Fiscal policies in these economies have given priority to development spending, including investment in education, health and infrastructure, as well as subsidies and credit guarantees for export industries. Monetary policy was coordinated with financial sector and industrial policies, including directed and subsidized credit schemes and managed interest rates, to directly influence investment and saving, whereas competitive exchange rates were considered essential for encouraging exports and export diversification. In contrast, macroeconomic policies in many Latin American and African countries since the 1980s have been focused on much more narrowly defined short-term stabilization objectives and many times this has resulted in exchange-rate overvaluation.

International policies to reduce financial volatility

A major challenge for the multilateral financial institutions is to help developing countries to mitigate the damaging effects of volatile capital flows and provide counter-cyclical financing mechanisms to compensate for the inherent pro-cyclical movement of private capital flows. A number of options are available to

dampen the pro-cyclicality of capital flows and thereby help to create a better environment for sustainable growth.

A first set of measures would include the adoption of financial instruments that reduce currency mismatches and link debt-service obligations to developing countries' capacity to pay (for instance, through GDP- or commodity-linked bonds). These could be accompanied by public loan guarantee mechanisms with counter-cyclical features issued by the multilateral development banks and export credit agencies. A third approach would involve support to developing-country Governments in strengthening regulatory frameworks that provide disincentives to short-term capital inflow volatility, and sound domestic financial private and public sector structures.

In addition, multilateral surveillance — primarily by the International Monetary Fund (IMF) — should remain at the centre of crisis prevention efforts. Enhanced provision of emergency financing at the international level in response to external shocks is considered essential to easing unnecessary burdens of adjustment and the costs of large reserve balances. For both middle-income and low-income countries, appropriate facilities should include a liquidity provision to cover fluctuations in export earnings, particularly those caused by unstable commodity prices and natural disasters. Access to official international liquidity during capital-account crises should be facilitated and made commensurate with the potentially large needs of countries that might surpass normal lending limits based on IMF quotas of members.

Investing in infrastructure and human capital

Part of the observed growth divergence is attributable to gaps in public investment in, and spending on, infrastructure and human development in these countries.

The need for improved infrastructure

An adequate level of infrastructure is a necessary condition for the productivity of firms. Just imagine an economy without telephones, electricity or a road network. By its very nature, infrastructure is characterized by indivisibilities and countries will need to build up a threshold or minimum level of infrastructure (say, a minimum network of roads) to make a difference for economy-wide productivity growth. To reach a minimum level of infrastructure, countries will need to sustain substantial public investment levels over prolonged periods of time. The failure to do so explains partly why Latin America and sub-Saharan Africa have fallen behind the East Asian countries that have sustained infrastructural investment. East Asian economies invested more in the quality and coverage of physical infrastructure. In sharp contrast, Latin American countries have witnessed a decline in infrastructural investment since the 1980s as a result of increased fiscal austerity. This has led to significant differences in the quality and availability of infrastructure. Since the 1960s, the road density in Latin America and sub-Saharan Africa has barely increased, while it has tripled in East Asia. Also the availability of telephone lines in East Asia is twice as great as that in Latin America and 10 times greater than in sub-Saharan Africa.

The empirical evidence indicates that lagging infrastructural development could account for as much as one third of the widening income differentials between East Asian and Latin American countries. The evidence shows further that there are important complementarities between public and private investment. Where Governments cut public investment in infrastructure or privatized infrastructural services, private investors failed to fill the gap. This outcome for a significant number of countries in Latin America and Africa is at odds with the initial expectations for such privatization programmes.

Human development is a necessary but not a sufficient condition for growth

Some empirical studies suggest that developing countries could catch up with the developed world if only they attained increased levels of human development. The links between growth and human development are complex, however. There are large disparities in indicators of human well-being, such as life expectancy and educational attainment. However, the world has seen more convergence among countries in terms of improvements in health and education outcomes than in terms of improvements in per capita incomes. The evidence in this report indicates that countries with a successful economic growth performance all had relatively high levels of human development at the start of their sustained growth process and showed substantial improvements in education and health as average incomes improved. Conversely, however, not all countries with relatively higher levels of human development managed to achieve high long-term economic growth rates.

Human development is, of course, an objective in its own right, which has been enshrined in the global agenda by United Nations conferences and summits. However, it seems that it is a necessary but not a sufficient condition for sustained economic growth. Lifting other constraints on economic growth and structural change will be necessary to create opportunities for a better-educated population. The dynamic creation of decent and productive employment is the crucial link in this regard.

Fiscal space for long-term investment in infrastructure and human development

Improvements in human development and infrastructural quality require adequate and sustained levels of public spending. Infrastructure development requires large-scale investments, which take time to mature. Improvements in education and health also entail longer-term efforts and require the permanent development and financing of social services. Good infrastructure, education and health can provide important social gains and this justifies the government's central role in making sure that society invests in them sufficiently. Counter-cyclical fiscal policies, as discussed above, can help smooth the way towards maintaining adequate levels of current government spending and public investment and help ensure that spending on education, health and infrastructure is not unduly curtailed during economic downswings.

Countries with significant gaps in infrastructure and human development will have to substantially increase the fiscal space for expenditures in these areas. In many countries, much additional space can be gained by improving the efficiency in public spending on education and health through better targeting to priority areas within the social sectors and by improving the cost-effectiveness of public programmes. In infrastructure, improved financing schemes and combating

corruption in the contracting of infrastructural works could help reduce costs. Yet, even with such gains in efficiency in public spending, resources may not be sufficient. Strengthening the tax base will be essential, particularly in countries with low government revenues. For the poorest countries, it is clear that substantial additional resources will be required for the necessary investments. More development aid will be required and will need to be allocated in support of investments in infrastructure and human development.

Increasing aid and its effectiveness

In 1961, when the General Assembly proclaimed the First United Nations Development Decade, it had been understood that an intensified effort to mobilize internal and external resources would be necessary if designated growth targets were to be met. It was also understood at the time that most of these resources would have to be allocated to infrastructure and human capital so as to overcome development bottlenecks. Increased aid flows were seen to be critical to overcoming such growth constraints and providing developing countries with a "big push". The target of 0.7 per cent of gross national income (GNI) of the developed countries for ODA emerged in this context. In the decades that followed, this target for aid transfers was not met by many and aid commitments of the member States of the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) fell to a third of that target. In 2002, at the International Conference on Financing for Development held in Monterrey, Mexico, the international community reiterated the need for concrete efforts by the donor countries towards achieving the target of 0.7 per cent of GNI for ODA and included the Millennium Development Goals as tangible criteria against which to assess ODA effectiveness. Aid moved back to centre stage in the development debate and renewed proposals for big pushes — as in the early 1960s — emerged. Aid also regained its upward trend, now matched by debt relief for the poorest countries.

The effectiveness of international development assistance has become the subject of much dispute. According to some views, aid has not supported economic growth and investment and has done little to reduce poverty. This report, in contrast, contends that the weight of the evidence supports the view that aid has been positive for long-term development. Accordingly, ODA has partly countered the tendencies leading to the income divergence witnessed during the past 40 years. However, since the magnitude of aid transfers has remained limited, the impact of ODA on reducing international income disparities has been very weak at best.

The above provides some support for the renewed idea of a big push for developing countries fuelled by aid. In this regard, the Millennium Development Goals could be viewed as a clear set of targets that require substantial investment to gear infrastructure and social services up to minimum threshold levels. Well-targeted programmes supported by aid could put the poorest nations on a path of faster growth. Such an approach assumes not only that enough is known on how to channel such resources efficiently in specific country contexts, but also that the Governments in the recipient countries have the administrative capacity to manage the resource flows in such a way as to ensure that cumulative income and productivity gains are generated. Conditions for improvements in the governance structure — particularly in such areas as transparency in budgetary processes, building a quality civil service and improving social service delivery — thus have to be part of the assessment of additional needs for development assistance. What

really works at the local level, however, varies from country to country and hence adding externally defined governance conditionalities to aid and lending flows, which has been a recent practice of donor agencies, may not produce the desired outcomes in terms of better-quality public services.

Institutions and good governance

It is now widely recognized that institutions and governance structures matter for economic growth and thus for explaining widening global income disparity. It is difficult, however, to pin down which "quality" institutions and governance structures should be pursued in order to support sustained growth processes, as has been made increasingly clear by the extensive examination of their importance in recent years. Such quality appears to be inherently country- and context-specific. For policymakers, it is of relevance to know whether new economic opportunities can be unlocked in a significant manner even when making more modest and focused changes in the existing institutions and governance structures.

Looking at economic history and institutional change, it appears that even a build-up towards better institutional frameworks in very specific areas can lift constraints on growth. China's reform of rural institutions in the late 1970s had sowed the seeds of its current economic success. In 1978, China introduced the household responsibility system, under which households were provided with use rights to collectively owned land under long-term leases. In exchange, farmers were obliged to supply a pre-fixed share of output to the collectives' production quotas, but could sell the remaining output on the free market or to the Government at negotiated prices. Viet Nam also introduced a land reform programme with a limited transfer of property rights to tenants as a means to ease the constraint on agricultural productivity. The Republic of Korea and Taiwan Province of China, in contrast, enacted a full transfer of landownership to farmers shortly after the Second World War to achieve the same objective. In all cases, the ensuing and significant agricultural output growth formed the basis for industrial development.

Successes have gone beyond reforms of rural and agricultural institutions. Several countries, such as Mauritius and those in East Asia, integrated themselves successfully into the global trading and financial systems by gradually establishing different public-private institutions to diversify the productive structure, and new regulatory frameworks for the financial sector, while at the same time introducing compensatory measures to minimize the social and economic costs associated with reforms.

These cases suggest three important conclusions. First, several forms of governance restructuring can be effective in lifting binding constraints on economic growth. Success in the cases mentioned was determined largely by the fact that the institutional reforms had been properly tailored to the prevailing socio-economic systems in each country. Second, the relatively limited reforms in China and Viet Nam suggest that accelerated economic growth does not require immediate large-scale and comprehensive institutional reforms. Fairly minor institutional changes can have profound results if there is a sense that such changes are sustained and if they are perceived to be initiating a further process of credible reform. Third, institutional reforms entail much more than just *creating* markets (and thus granting property rights). They are also about creating the institutional and regulatory

framework that markets need in order to function properly, about providing public goods and about guaranteeing the fairness of the rules (ensuring equitable outcomes). They are, in addition, about consensus-building and preventing social conflict.

The third conclusion is most relevant to the lessons that need to be drawn from an examination of the origins of the growth failures in many poorer countries, particularly in Africa. Institutional weaknesses and civil strife played an important role, but these cannot be analysed in isolation from the economic conditions prevailing in those countries. The prevalence of both growth failures and internal conflict seems to have been greatest among countries that are mineral exporters as compared with agricultural and manufactured goods exporters. Still, it cannot be concluded that growth collapses and conflict are the direct result of a dependence on revenues from natural resources. There must be other mechanisms at work, such as a weakening social contract and a withering State capacity. But the abundant availability of easily lootable mineral resources or illicit drugs can cause or perpetuate civil wars and conflicts. The very wealth that is producible in a short period of time by their exploitation can exacerbate social inequality and political conflict, including divides between the central Government and the local authorities in the areas where the resources are located, or among different regions in one country. If strong institutions are not in place to resolve these issues right at the start of exploitation, violence can erupt and, in general, existing differences within society can be exacerbated if it is felt that the wealth is not being distributed justly. One of the major research findings of the present report is that this particular manifestation of the "natural resource curse" can be averted if countries have strong institutions that are able to manage and defuse conflicts.

Implications for governance reform policies

While governance reform is intrinsically difficult to implement, this analysis suggests at the same time that there is no justification for the pessimistic belief that certain countries will remain mired in low growth and shackled with institutions that impede their growth. Growth is indeed possible with initially imperfect institutions, but it is important in these circumstances that the Government itself be credibly committed to making changes that will remove the institutional obstacles to sustained growth. Governance reform is thus about creating well-functioning public institutions that are seen as legitimate by private agents. International cooperation can help, but only by supporting domestic processes that are inherently context-specific and gradual.

For the international community, this finding has particular relevance to countries that are emerging from conflict or have become "failed States". In most cases, the most important consideration is to foster the resumption of economic activity, which usually means the revival of the agricultural sector, inasmuch as, a solid agricultural sector is usually essential for subsequent economic development. This will encourage further investment in that sector and raise farmers' incomes so that their own demand as directed towards the rest of the economy will increase. A prosperous agricultural sector can show that growth is indeed shared and so can help create a stable and just society. With economic growth comes the opportunity to adjust institutions and improve governance so that a virtuous circle is created.

Global inequality, security and the international development agenda

In today's increasingly integrated global economy, the growth performance of a country is determined by factors that operate both within and outside its geographical boundaries. Increased international trade and finance can contribute to better economic performance. However, countries with poorly integrated domestic economies, pro-cyclical macroeconomic policies, low infrastructural and human development and weak institutions have less opportunity to gain from expanding world markets. Their initial weaknesses tend to keep them stuck on a low-growth path and in consequence they fall further behind. These underlying reasons for the divergence, and thus for the increasing global inequality, also make it more difficult for them to grow out of poverty and increase their resilience to global shocks. This in turn will feed further international income disparities and could increase the risk of conflict. Conversely, countries that are able to promote both the external and internal integration of their economies and to conduct counter-cyclical macroeconomic policies, and that have well-developed human capital and infrastructure and strong institutions are in a better position to benefit from enhanced integration into the world economy and will be able to catch up with developed countries.

The problem of rising global inequality therefore has an important bearing on the implementation of the United Nations development agenda. It makes the achievement of the Millennium Development Goals and other internationally agreed development goals more difficult and affects global security. Failure to redress the tendency towards growing global inequality could thus have wide-ranging consequences for human development.

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Economic and Social Council
Substantive session of 2006
Geneva, 3-28 July 2006
Item 13 (a) of the annotated provisional agenda**
Economic and environmental questions: sustainable development

Letter dated 13 April 2006 from the Permanent Representative of Saint Kitts and Nevis to the United Nations addressed to the Secretary-General

I have the honour to transmit to you the final report of the Caribbean Regional Meeting to follow up implementation of the Mauritius Strategy, held in Frigate Bay, Saint Kitts and Nevis, from 5 to 7 October 2005 (see annex).

On behalf of the small island developing States participating in that meeting, I request that the report be issued as a document of the General Assembly, under item 52 (b) of the preliminary list of its sixty-first session, and of the ECOSOC, and that it be made available at the fourteenth session of the Commission on Sustainable Development.

(*Signed*) Joseph **Christmas**
Ambassador
Permanent Representative of Saint Kitts and Nevis to the United Nations

* A/61/50.
** E/2006/100.

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Annex to the letter dated 13 April 2006 from the Permanent Representative of Saint Kitts and Nevis to the United Nations addressed to the Secretary-General

Caribbean Regional Meeting to follow up implementation of the Mauritius Strategy

Saint Kitts and Nevis, 5-7 October 2005

The Caribbean Regional Meeting to follow up on implementation of the Mauritius Strategy was convened in Saint Kitts and Nevis from 5 to 7 October 2005 at the Marriott Saint Kitts Resort and Royal Beach Casino. The meeting was attended by Antigua and Barbuda, Bahamas, Barbados, Cuba, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago, Montserrat, Netherlands Antilles, Puerto Rico and United States Virgin Islands, the Caribbean Community secretariat (CARICOM), the Organization of Eastern Caribbean States secretariat (OECS), the Association of Caribbean States secretariat (ACS), the Caribbean Regional Negotiation Machinery (CRNM), the Caribbean Environmental Health Institute (CEHI), the Caribbean Disaster and Emergency Relief Agency (CDERA), the University of the West Indies (UWI), the University of the Virgin Islands (UVI), the subregional headquarters of the Economic Commission for Latin America and the Caribbean for the Caribbean (ECLAC-POS), the United Nations Environment Programme (UNEP), the United Nations Development Programme (UNDP), the Department of Economic and Social Affairs of the United Nations Secretariat, the Caribbean Conservation Alliance (CCA), CPDC, Caribbean Civil Society Forum (CCSF), Caribbean Council for Science and Technology (CCST), Caribbean Knowledge and Learning Network (CKLN), the Caribbean Water Partnership (CWP), the Network of Non-Governmental Organizations of Trinidad and Tobago for the Advancement of Women, Coalition for Community Participation in Governance Jamaica and the Non-Governmental Organizations Women's Resource and Outreach Centre Jamaica.

The opening session was chaired by Ms. Shirley Skerritt-Andrews, Ministry of Sustainable Development. Welcoming remarks were given by Ms. Diane Quarless, Chief of the Small Island Developing States Unit, of the Department of Economic and Social Affairs, Mr. Thomas Gittens, on behalf of the UNDP Resident Representative and Resident Coordinator for Barbados and OECS, Mr. Neil Pierre, Director of the subregional headquarters of the Economic Commission for Latin America and the Caribbean for the Caribbean, and Ms. Lolita Applewaite, Deputy Secretary-General of the CARICOM secretariat. A keynote address was given by His Excellency the Honourable Timothy Harris, Minister for Foreign Affairs, International Trade and Commerce of Saint Kitts and Nevis. The vote of thanks was given by Mr. Carlisle Richardson, Counsellor, Permanent Mission of Saint Kitts and Nevis to the United Nations.

Panel presentation and policy dialogue on critical challenges and opportunities to be addressed by the region

The session was held on 5 October, and was facilitated by Mr. Thomas Gittens, UNDP. Ms. Shirley Skerritt-Andrews of Saint Kitts and Nevis was elected Chairman

of the Meeting. Mr. Hector Conde Almeida of Cuba and Mr. Roland Antonius of Netherlands Antilles were elected Vice-Chairmen, and Ms. Henna Uiterloo of Suriname was elected as Rapporteur.

Panel presentations were made by Mr. Franklin McDonald, Dr. LaVerne Ragster, Dr. Leonard Nurse and Mr. Gordon Bispham. Statements were made and questions raised by CEHI, OECS secretariat, Cuba, Saint Lucia, Guyana, Suriname, Barbados, CKLN, CDERA, Trinidad and Tobago, Netherlands Antilles, CARICOM secretariat and responses were given by the panellists.

Mr. Franklin McDonald gave an overview of the priorities and continuing needs of the region, focusing in particular on marine, coastal and natural resources. Dr. LaVerne Ragster focused on capacity-building possibilities for the region with emphasis on the newly proposed University Consortium. Dr. Leonard Nurse elaborated the role of UWI in the implementation of the Mauritius Strategy. Mr. Gordon Bispham gave perspectives on the importance of continued civil society participation in the articulation of national strategies towards the implementation of the Mauritius Strategy.

During discussion, the following were highlighted:

- There are training and capacity-building needs at all levels;
- There is also a need to place emphasis on training persons who are actual practitioners;
- There is an absence of a mechanism for best practices and information and skills sharing at the regional level, which has led to the perception that sustainable development was being implemented in a fragmented manner;
- The need for an enhanced reporting mechanism in the region;
- The need to revise systems of land classification for environmental planning, improvement of regulatory arrangements for land use management and the enhancement of physical development plans;
- Further development of regional and local area plans for disaster mitigation;
- The need to adhere to existing standards such as building codes;
- Continued attention to coastal zone and water resource management;
- There is need for greater integration of the private sector in sustainable development strategies;
- Importance was given to building economic competitiveness and social resilience, and the need to focus on implementation of the Millennium Development Goals and poverty reduction plans;
- Consideration of measures to implement the MEAs;
- The need for partnerships between government agencies, private sector and regional universities for capacity-building;
- Consideration should be given to framing sustainable development plans within CSME. In this regard there is need for further analysis on how the social and environmental programmes will be impacted by CSME;
- The need to coordinate environmental standards across the region;

- The importance of generating relevant data for decision-making; and
- The need to improve synergies among regional organizations in areas of importance to SIDS.

Consideration of integrated approaches to the implementation of the Mauritius Strategy for Implementation-linkages and synergies between sectors, using climate change, energy, atmosphere and industrial development as examples

The session was held on 6 October, and was chaired by the Vice-Chairman. Presentations were made by Ms. Skerritt-Andrews, Dr. Hugh Sealy and Professor Albert Henry Binger. Statements were made and questions raised by Cuba, Trinidad and Tobago, Saint Lucia, Haiti, CCA, CEHI, Guyana, CCSF, UNDP, CCST, CARICOM secretariat, ECLAC-POS, CWC, and ACS secretariat.

Ms. Shirley Skerritt-Andrew and Dr. Hugh Sealy described the experiences of Saint Kitts and Nevis and Barbados in their implementation of a national mechanism for the implementation of a national sustainable development strategy. Their experiences underscored the following:

- The importance of an integrated rather than sectoral approach to programming for sustainable development;
- The challenges of limited human resource capacity in specialized fields such as GIS, building management and environmental impact assessment;
- Note was made that CARICOM has a technical assistance programme, subsumed under the Work Programme of CSME. This is an entry point that could be expanded to take on board the needs of sustainable development, as noted by the meeting;
- The need for reconciling policymaking functions with practical implementation;
- The continuing need for financial resources at the national level;
- The desirability of establishing a pool of regional experts for deployment on short-term assignments in the service of national Governments;
- The importance of developing national sustainable development policies The Barbados Model was based on the following principles and objectives: quality of life; conservation of resources — recognizing that there are bio-physical limits to growth; determining the carrying capacity of the island; ensuring economic efficiency and equity. It should also ensure true participation of all stakeholders;
- The importance of developing sustainable development indicators.

Professor Binger discussed the importance of maximizing synergies among sectors to build resilience in small States, using as example the energy, tourism, agriculture, wastewater and land management. He also discussed the importance to SIDS of improving energy efficiency and on developing alternate energy sources, with emphasis on OTEC. He noted that SIDS tend to discount the vast resource that the oceans offer as an energy option. He also presented a case study on the use of sugar cane as biofuel for electricity production. He highlighted the importance of cutting import expenses for fuel which would in turn lead to social and economic

benefits. SIDS should carry out energy audits, resource evaluation and energy usage profiles. They should assess and take action on the most suitable renewable energy and energy efficiency measures available. OTEC and biomass were in his view the most promising applications, but there is also ample scope for using simple solar applications.

Consideration of a regional mechanism/consultative framework for most effective, coordinated, coherent implementation of the implementation of the BPOA/MSI

The session was held on 6 October, and was chaired by the Vice-Chairman. Presentations were made by Mr. Arthur Gray (ECLAC-POS) and Ms. Glenda Itiaba (CARICOM secretariat). Statements were made and questions raised by Trinidad and Tobago, ACS secretariat, CEHI, Guyana, CSTC, CCSF, CPDC, CDERA, ECLAC-POS, CRNM and CCA.

The session was continued on 7 October, and was chaired by the Vice-Chairman. Statements were made and questions raised by Saint Lucia, Dominica, Saint Vincent and the Grenadines, Barbados, Jamaica, Antigua and Barbuda, Suriname, Trinidad and Tobago, Montserrat, Guyana, Netherlands Antilles, Cuba, OECS secretariat, UWI, CDERA, CPDC, Grenada, CCA, CCSF, ECLAC-POS and CARICOM secretariat.

The presentations from ECLAC-POS and CARICOM secretariat described the region's experience in attempting to establish a permanent regional coordinating mechanism to support national implementation of sustainable development and the Barbados Programme of Action. They made recommendations on possible approaches for the creation of a new mechanism.

The meeting reaffirmed that there was need for a regional coordinating mechanism for the implementation of the BPOA/MSI. It should be pan-Caribbean in scope, and should mirror national coordination efforts and reflect national priorities. Some functions of the mechanism were discussed such as coordination of implementation across the region through liaison with Governments and agencies, provision of advice on global and regional sustainable development issues for Governments, agencies and civil society, identification of transboundary issues for the region, and supporting national implementation via technical and other resources, arranging and coordinating consultative meetings. Furthermore, there was a need to establish commonly agreed sustainable development indicators to be utilized by the mechanism for reporting and monitoring purposes.

It was noted that there should be a clear political directorate for oversight, as well as a need for agreement on the functions of the mechanism, to identify gaps in the region. The very serious issues of coordination at the national level and reporting need to be addressed.

It was noted that SIDS and regional agencies should apply the Mauritius Strategy for Implementation to their current activities and development plans. It was suggested that a meeting could convene at end of CARICOM Council as a Caribbean sustainable development council. Other alternatives could also be explored. It was concluded that the mechanism needs to be financially sustainable and properly resourced. Finally it was emphasized that the mechanism should promote cooperation among the countries of the region.

A core group was established for considering elements for the new mechanism, with the following members: ACS secretariat, ECLAC-POS, CARICOM secretariat, OECS secretariat, United States Virgin Islands, Saint Lucia, Belize (not present), Cuba, Jamaica, Guyana, CCA (facilitating and coordinating with NGOs, CAIC and CCL).

Consideration of national mechanisms and frameworks for most effective implementation of the Barbados Programme of Action/Mauritius Strategy for Implementation

The session was held on 7 October, and was chaired by the Vice-Chairman. Statements were made by Antigua and Barbuda, Grenada, Dominica, Jamaica, Guyana and Saint Lucia. A number of countries presented their experiences with national coordination of sustainable development issues. Key principles identified for constructive processes include transparency, inclusiveness of all stakeholders, and adequate resources. Some countries emphasized that sustainable development principles had been included in their national planning processes, including consideration of cultural aspects to development. While there were many best practices identified, it was recognized that each individual country must adapt these according to its national circumstances.

Consideration of programmes for operationalization of the MSI with focus on regional and subregional programming based on priorities identified by the region

The session was held on 7 October, and was chaired by the Chairman. Presentations were made by the CARICOM secretariat and the Department of Economic and Social Affairs.

Statements were made and questions raised by United States Virgin Islands, Guyana and Cuba.

Conclusion of the meeting

The session was held on 7 October, and was chaired by the Chairman. The report of the meeting was presented by the Rapporteur. Statements were made and questions raised by CPDC and Netherlands Antilles. A clarification was given by the Secretariat. The Chairman proposed that the report of the meeting be adopted by acclamation and that the Rapporteur be entrusted with completing the editing of the report supported by the secretariats, for subsequent circulation to all participants.

CARICOM also circulated their document on partnerships for sustainable development in the Caribbean Region which documented a series of partnership proposals developed by the region in preparation for the Mauritius International Meeting. A youth caucus representative presented a statement on behalf of civil society participants.

The Chairman thanked the organizers and declared the meeting closed.